



DEPARTMENT OF DEFENSE

AUDIT REPORT

RESTRICTIVE CONTRACT CLAUSES
ON ANTIFRICTION BEARINGS

No. 91-038

January 30, 1991

DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

*Office of the
Inspector General*



20000809 042

DTIC QUALITY INSPECTED 4

AGI 00-11- 3183



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

January 30, 1991

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Audit of Restrictive Contract Clauses
on Antifriction Bearings (Report No. 91-038)

This is our final report on the Audit of Restrictive Contract Clauses on Antifriction Bearings for your information and use. Comments on a draft of this report were considered in preparing the final report. We made the audit from September 1989 through February 1990 in response to a request from the Office of Industrial Base Assessment (the Office), Office of the Under Secretary of Defense for Acquisition. The Office requested the review because of its concern that restrictions on buying only domestic antifriction bearings were not effectively implemented and enforced in DoD contracts. The audit covered antifriction bearing contracts awarded in FY's 1988 and 1989. The objectives of the audit were to determine whether contracting officers properly included restrictive clauses in contracts for antifriction bearings and whether contractors complied with these clauses. We also evaluated the adequacy of DoD internal control procedures for monitoring contracts requiring restrictive clauses. Antifriction bearing contracts (Federal Supply Classification Code 3110) awarded in FY's 1988 and 1989 totaled about \$70 million.

The audit showed that DoD contracting activities had generally implemented the restrictive clauses for miniature and instrument ball bearings (bearings with a basic diameter of 30 millimeters or less), but they had not implemented the restrictive clauses on antifriction bearings larger than 30 millimeters. We did not evaluate either the compliance with clauses that restrict procurements of bearings in end items or purchase orders issued under prime contracts because of the significant internal control problems identified with direct purchases of bearings. These internal control weaknesses resulted in contracts that were awarded with no assurance that domestic manufacturers would provide the bearings. The results of the audit are summarized in the following paragraph, and the details, audit recommendations, and management comments are in Part II of this report.

DoD contracting officers did not always include and enforce restrictive clauses on antifriction bearings in contracts, as required by the Defense Federal Acquisition Regulation Supplement (DFARS). As a result, 28 contracts totaling \$4,400,536 were awarded without assurances that antifriction bearings would be purchased from domestic manufacturers. We recommended that the Army Materiel Command, the Naval Supply Systems Command, the Air Force Logistics Command, and the Defense Logistics Agency issue guidance to their respective contracting offices to implement these requirements for restrictive clauses and to establish procedures to monitor the implementation of these restrictive contract clauses. We recommended that the Director, Defense Logistics Agency, direct the administrative contracting officers, for the subject contracts, to obtain certifications for domestic manufacture from contractors. We also recommended that the Director, Defense Logistics Agency, issue a guidance letter to the Defense Contract Management Districts that requires administrative contracting officers to obtain the certificates for domestic manufacture of bearings (page 5).

The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were not established or effective to ensure that restrictive clauses on antifriction bearings were implemented and enforced. Recommendations 1.a., 1.b., 2.a., and 2.b. in this report, if implemented, can substantially correct these internal control weaknesses. We could not determine the monetary benefits to be derived from implementing these recommendations. The senior officials responsible for internal controls within the Military Departments and the Defense Logistics Agency will be provided a copy of the final report.

On October 18, 1990, a draft of this report was provided to the addressees. We received comments that concurred with the finding and recommendations from the Director, U.S. Army Contracting Support Agency (Appendix B) on December 10, 1990; the Assistant Secretary of the Navy (Research, Development and Acquisition) (Appendix C) on December 20, 1990; and the Office of the Assistant Secretary of the Air Force (Acquisition) (Appendix D) on December 14, 1990. The comments are summarized in Part II of the report. As of January 25, 1991, the Director, Defense Logistics Agency had not responded to the draft report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. In order to comply with the Directive, we request that the Director, Defense Logistics Agency, provide us with comments on the finding and Recommendations 1.a., 1.b., 2.a., and 2.b. in this final report within 60 days of the date of this report. These comments should indicate either concurrence or nonconcurrence with the finding and each of the recommendations. If you concur, please describe the actions taken or planned, completion dates of actions already taken, and

or nonconcurrence with the finding and each of the recommendations. If you concur, please describe the actions taken or planned, completion dates of actions already taken, and estimated dates of completion of planned actions. We also ask that your comments indicate concurrence and nonconcurrence with the internal control weaknesses identified above. If appropriate, please describe alternative actions proposed to achieve the desired improvements. If you nonconcur, please state the specific reasons for the positions taken. Comments to this final report are not required from the Army, Navy, and Air Force. This report does not claim any monetary benefits; however, other benefits are listed in Appendix E.

We appreciate the courtesies extended to the staff during the audit. Please contact Mr. Richard Jolliffe, Program Director, at (703) 614-6260 (AUTOVON 224-6260), if you have any questions concerning this audit. A list of audit team members is in Appendix G. Copies of this report are being provided to the activities listed in Appendix H.



Edward R. Jones
Deputy Assistant Inspector General
for Auditing

cc:

Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

REPORT ON THE AUDIT OF
RESTRICTIVE CONTRACT CLAUSES ON ANTIFRICTION BEARINGS

TABLE OF CONTENTS

	<u>Page</u>
TRANSMITTAL MEMORANDUM/EXECUTIVE SUMMARY	i
PART I - INTRODUCTION	1
Background	1
Objectives and Scope	1
Internal Controls	3
Prior Audit Coverage	3
PART II - FINDING AND RECOMMENDATIONS	
Restrictive Contract Clauses on Antifriction Bearings	5
APPENDIX A - Antifriction Bearings Contracts Without the Required Certification of Domestic Origin	11
APPENDIX B - Army Comments	13
APPENDIX C - Navy Comments	15
APPENDIX D - Air Force Comments	17
APPENDIX E - Summary of Potential Monetary and Other Benefits Resulting from Audit	21
APPENDIX F - Activities Visited or Contacted	23
APPENDIX G - Audit Team Members	25
APPENDIX H - Final Report Distribution	27

Prepared by:
Contract Management Directorate
Project No. 9CA-5018

REPORT ON THE AUDIT OF
RESTRICTIVE CONTRACT CLAUSES ON ANTIFRICTION BEARINGS

PART I - INTRODUCTION

Background

"Buy American" restrictions are imposed on defense procurements for various reasons: to establish or maintain a domestic production base for surge or mobilization capability; to reduce dependence on foreign sources for critical military materials; and to provide temporary relief for troubled industries. The Congress has given the Secretary of Defense statutory authority to address these industrial mobilization base issues. Responding to claims and investigations that imports of miniature and instrument ball bearings were threatening national security, the Secretary of Defense imposed restrictions on that portion of the antifriction bearing industry in 1971. The restrictions mandated that DoD requirements for miniature and instrument ball bearings be acquired from domestic manufacturers (United States or Canada) to the maximum extent practicable.

In 1988, the Secretary again responded to concerns about the erosion of the United States ball bearing industry and the impact on national security by imposing additional restrictions on the procurement of antifriction bearings. An interim rule to the Defense Federal Acquisition Regulation Supplement (DFARS), effective August 4, 1988, required all bearings, bearing components, or bearings in end items to be of domestic manufacture. In addition, the DFARS required the contractor to certify in writing, upon delivery, that the bearings, bearing components, or end items were of domestic manufacture. The final rule in DFARS Subpart 208.79 became effective July 11, 1989.

The Office of Industrial Base Assessment (the Office), Office of the Under Secretary for Acquisition, requested the review because of concerns that the restrictions to buy domestic antifriction bearings were not effectively implemented and enforced. The Office had received complaints from the American antifriction bearing industry that domestic manufacturers had lost their market share to foreign manufacturers because of noncompliance with the restrictions on domestic manufacture.

Objectives and Scope

The audit objectives were to determine whether contracting officers properly included restrictive clauses in contracts for antifriction bearings, whether contractors complied with these clauses, and whether DoD's internal controls were adequate for monitoring compliance with the restrictive clauses. We reviewed 457 contracts, totaling \$60.1 million, at four judgmentally selected DoD procurement offices to determine which contracts required restrictive clauses. These contracts were awarded under Federal Supply Classification Code 3110 (Bearings, antifriction,

unmounted) from October 1987 through November 1989. For these contracts, which represented 86 percent of the total DoD awards for this classification code, we reviewed contract solicitations, contract specifications, contractor proposals, and other contractual documentation to determine which contracts required restrictive clauses. The majority of the contracts reviewed were not subject to the clauses because their solicitation dates were prior to the effective date of the DFARS interim rule. Our review showed that 69 contracts, totaling \$7.4 million as summarized below, should have had restrictive clauses as required by the DFARS. These contracts included 38 for antifriction bearings and 31 for miniature and instrument bearings.

CONTRACTS REQUIRING RESTRICTIVE CLAUSES

<u>Buying Office</u>	<u>Contracts Reviewed</u>			<u>Amount (in \$000's)</u>
	<u>Number of Contracts</u>			
	<u>AF 1/</u>	<u>M&I 2/</u>	<u>Total</u>	
Defense Industrial Supply Center	21	25	46	\$2,768
Navy Aviation Supply Office	6	3	9	968
Army Aviation Systems Command	2	1	3	581
Air Force Air Logistics Center San Antonio	<u>9</u>	<u>2</u>	<u>11</u>	<u>3,070</u>
Totals	<u>38</u>	<u>31</u>	<u>69</u>	<u>\$7,387</u>

1/ Antifriction ball bearings.

2/ Miniature and instrument ball bearings.

For these contracts, we reviewed contractual documents, such as material receiving reports and other delivery documents, and held discussions with contracting officers and administrative contracting offices to determine if restrictive clauses were implemented and if contractor certifications on domestic manufacture were obtained. Our review included information that was based on computer-generated data from the DoD contract reporting system (DD Form 350, "Individual Contracting Action Report"). Nothing came to our attention as a result of specified procedures that caused us to doubt the acceptability of the computer-generated data. By using other data and information, we concluded that the computer-generated data could be relied on to achieve the audit's objectives.

This performance audit was made from September 1989 through February 1990 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the

Inspector General, DoD. Accordingly, we included such tests of the internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Appendix F.

Internal Controls

We reviewed the implementation of the Federal Managers' Financial Integrity Act (the Act) as it related to our audit scope at the Defense Industrial Supply Center, the Navy Aviation Supply Office, the Army Aviation Systems Command, the Air Force's San Antonio Logistics Center, and the Defense Contract Management Command. The implementation and enforcement of restrictive contract clauses were not considered separate assessable units at these activities, but were part of the assessable units called procurement and contract administration. These activities did not specifically cover restrictive contract clauses on antifriction bearings in their self-evaluations of procurement and contract administration controls. Since coverage was not directly related to our audit scope, we are not commenting on the adequacy of the implementation of the Act.

The internal control objectives for restrictive contract clauses on antifriction bearings are to ensure that:

- the contracts contain the appropriate clauses requiring domestically manufactured antifriction bearings or the contract file documents an appropriate waiver from the use of a domestic manufacturer,

- the contractor provides the certification of domestic origin when required, and

- the contractors comply with the requirements for domestic production.

We found that internal controls for the implementation of restrictive contract clauses were not adequate to ensure that clauses were included in contracts for the procurement of antifriction bearings. In addition, contractors were not providing certifications of domestic manufacture when the clauses were included in the contracts. The DFARS requires that antifriction bearings contracts contain restrictive contract clauses, and that certificates of domestic origin be obtained for antifriction bearings, except for miniature and instrument bearings. Details are provided in the Finding in Part II of the report.

Prior Audit Coverage

We identified no prior audit coverage of this subject area during the last 5 years.

This page was left out of original document

PART II - FINDING AND RECOMMENDATIONS

Restrictive Contract Clauses on Antifriction Bearings

FINDING

DoD contracting officers did not always include restrictive clauses on antifriction bearings in contracts, as required by the DoD Federal Acquisition Regulation Supplement (DFARS). Furthermore, even when the clauses were included in the contracts, contractors did not certify that the bearings were of domestic origin. These conditions occurred because the buying activities were not timely in updating their lists of contract clauses, and because neither the buying activities nor the contract administration offices were adequately monitoring the implementation of the restrictive clauses for antifriction bearings. As a result, four DoD contracting offices awarded 28 contracts totaling \$4,400,536 from July 1988 through October 1989 with no assurance that antifriction bearings would be purchased from domestic manufacturers.

DISCUSSION OF DETAILS

Background. The Secretary of Defense has established "buy American" restrictions on antifriction bearings through two requirements in Part 208 of the DFARS. The first restriction in Subpart 208.73, "Miniature and Instrument Ball Bearings," involves a segment of the overall antifriction bearings industry. Miniature and instrument ball bearings are all rolling contact ball bearings with a basic diameter of 30 millimeters or less, irrespective of material, tolerance, performance, or quality characteristics. DFARS 208.7302, requires that:

. . . all acquisitions of miniature and instrument ball bearings and all acquisitions of items containing miniature and instrument ball bearings shall include, except as provided in 208.7303 below, a requirement that such ball bearings delivered under the contract be of domestic manufacture only.

The DFARS 208.7303, "Procedures," requires that the clause at DFARS 252.208-7000, "Required Sources for Miniature and Instrument Ball Bearings," be inserted in all contracts, with certain exceptions.

The contracting officer may waive the use of subassemblies or end items with foreign bearings if a contractor or subcontractor has such items on hand and if requiring the use of domestic manufactured bearings would interfere with the production or delivery schedule. However, the contracting officer should grant waivers only to the extent and period of time necessary to permit the contractor to acquire and use domestic bearings.

The second restriction on the acquisition of domestic ball bearings is in DFARS 208.7902, "Antifriction Bearings," which requires that:

. . . all bearings, components of bearing components, or bearings contained in items, whether procured directly or installed in defense end-items and subassemblies shall be of domestic manufacture. This restriction shall remain in effect for contracts awarded through September 30, 1991. The restriction may be extended for an additional 2 years if conditions warrant.

The restriction does not apply to commercial products (except for items designed or developed under a Government contract, or bearings or bearing components), miniature and instrument bearings already restricted by DFARS Subpart 208.73, and bearings covered by selected military specifications for contracts entered into prior to December 31, 1989.

The head of a contracting activity may waive the requirement for contracts of 12 months or less if a determination is made that no domestic manufacturer meets the requirement or if it is not in the best interest of the Government to qualify a domestic bearing source. The DFARS also allows the contracting officer to waive contracts exceeding 12 months. However, before granting a waiver, the contracting officer must require the offerors to submit a written plan for transitioning from the use of nondomestic to domestic manufacture bearings.

DFARS 208.7905, "Solicitation Provision and Contract Clause," requires that the clause in DFARS 252.208-7006, "Required Sources for Antifriction Bearings," be included, except for a few minor exceptions, in all solicitations and contracts.

Implementation of Restrictive Contract Clauses. Although contracting officers had generally implemented the restrictive contract clauses for miniature and instrument ball bearings (29 of 31 contracts), they had not implemented the interim rule for antifriction bearings. Our review of antifriction bearings (other than miniature and instrument) showed that contracting officers did not include the required clause in 26 (68 percent) of the 38 contracts, which totaled \$4,315,713. Ten of the twenty-six contracts not containing the required clauses were for solicitations issued in the first 60 days after the effective date of the interim rule. These 10 contracts did not cause as much concern as the 16 that still did not include the restrictive clause in solicitations up to 10 months after the effective date of the interim rule. One location, the Navy Aviation Supply

Office, had never implemented the restrictions but did take action during the audit to correct the problem. Details of the problems, by buying activity, are shown below.

EXTENT OF IMPLEMENTATION

<u>Antifriction Clauses</u>	<u>DISC 1/</u>	<u>NASO 2/</u>	<u>AASC 3/</u>	<u>ALC 4/</u>	<u>Total</u>
Not Implemented					
Within the First 60 Days	8	2	0	0	10
After 60 Days	4	4	1	7	16
Total Not Implemented	<u>12</u>	<u>6</u>	<u>1</u>	<u>7</u>	<u>26</u>
Implemented	9	0	1	2	12
Total Required	<u>21</u>	<u>6</u>	<u>2</u>	<u>9</u>	<u>38</u>

Footnotes:

- 1/ Defense Industrial Supply Center
- 2/ Navy Aviation Supply Center
- 3/ Army Aviation Systems Command
- 4/ Air Force San Antonio Air Logistics Center

We also found in one instance that the Defense Industrial Supply Center awarded a contract, totaling \$80,169, to a foreign manufacturer without obtaining the necessary waiver.

The buying activities did not immediately implement the clauses because they must receive notification and guidance from the Military Departments and the Defense Logistics Agency, before implementing the restrictive clauses. Also, the buying activities lacked effective internal controls over the timely addition of restrictive clauses to their lists of contract clauses and over the contracting officers' implementation of the clauses.

Contractor Certifications. We determined that even when the contracting officers included the restrictive clause for antifriction bearings in 12 contracts totaling \$890,195, DoD activities were not enforcing the requirement that contractors certify that bearings were of domestic origin. DFARS 252.208-7006(c) requires that:

The Contractor shall certify to the Contracting Officer in writing upon delivery of the bearings, bearing components, or defense end-items or subassemblies containing bearings, that to the best of its knowledge and belief, such bearings or bearing components are of domestic manufacture.

Discussions with contracting officers showed that they were not involved with obtaining the certifications because this requirement was to be met upon delivery; therefore, this was an administrative contracting officer's (ACO) function. Subsequent discussions with the ACO's and Headquarters, Defense Logistics Agency (DLA), showed that a separate certification for domestic manufacture was not being requested or obtained. Headquarters, DLA, and the ACO's stated that a separate certification was not obtained because contractors already provided a Certificate of Conformance that accomplished the same purpose. We disagree with the DLA interpretation that the Certificate of Conformance, which is used in accordance with Federal Acquisition Regulation 46.504, "Certificate of Conformance," as a substitute for source inspection, qualifies as a certificate of domestic manufacture. However, we did note that a certificate of domestic manufacture was obtained when an ACO requested one from the contractor.

Oversight of Restrictive Clauses for Antifriction Bearings. We found that neither the Military Departments nor the DLA monitored the implementation and enforcement of restrictive contract clauses on antifriction bearings. Although in most cases the Headquarters offices had issued implementing guidance, there were no effective internal controls to ensure that clauses were implemented on a timely basis, and that the requirements of the clauses, such as obtaining certifications, were met. The buying activities also had internal controls, such as procurement reviews, pre- and postaward reviews, and legal checks; however, the antifriction bearing clause had not been implemented as required. As a result, DoD buying activities omitted required clauses from contracts, failed to obtain required certifications, and failed to ensure, to the maximum extent possible, that antifriction bearings would be purchased from domestic manufacturers.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Commanders of the Army Materiel Command, the Naval Supply Systems Command, and the Air Force Logistics Command; and the Director of the Defense Logistics Agency:

a. Issue guidance to their respective contracting offices to implement the requirements for restrictive clauses.

b. Direct their respective contracting offices to establish procedures to monitor the implementation of restrictive clauses in solicitations and contracts for the acquisition of antifriction bearings.

2. We recommend that the Director, Defense Logistics Agency:

a. Direct the administrative contracting officers for the subject contracts (Appendix A) to obtain the Defense Federal

Acquisition Regulation Supplement 252.208-7006(c) required certificates for domestic manufacture of bearings.

b. Issue a guidance letter to the Defense Contract Management Districts to require that administrative contracting officers obtain the certificates for domestic manufacture of bearings.

MANAGEMENT COMMENTS

The Director, U.S. Army Contracting Support Agency, concurred with the finding and Recommendations 1.a. and 1.b. related to issuing guidance and monitoring the implementation of the restrictive clauses in solicitations and contracts for the acquisition of antifriction bearings. The Director also stated that the cited clause has been incorporated into the Army's automated solicitation data bases.

The Assistant Secretary of the Navy (Research, Development and Acquisition) concurred with the finding and Recommendations 1.a. and 1.b. to issue guidance and to establish procedures to monitor the implementation of restrictive clauses in solicitations and contracts. Also, the Naval Supply Systems Command (NAVSUP) was to issue a general policy letter related to implementation of the restrictive clauses to its respective contracting offices by December 31, 1990. In addition, NAVSUP will review procurements to ensure activity compliance, quality, efficiency, and effectiveness of the contract management functions during Procurement Management Reviews.

The Associate Deputy Assistant Secretary (Contracting), Office of the Assistant Secretary of the Air Force (Acquisition), concurred with the finding and Recommendations 1.a. and 1.b. The Air Force concurred with the need for adequate monitoring of the restrictive clauses. The Air Force stated that the implementation of the restrictive clause for antifriction bearings was inadvertently delayed 90 days. The Air Force also issued guidance on December 12, 1990, to field contracting activities to ensure proper monitoring and implementation of the restrictive clauses for the acquisition of antifriction bearings.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The Army, the Navy, and the Air Force comments are responsive and meet the intent of the recommendations. We received no comments from the Defense Logistics Agency; therefore, we ask that the Agency respond to this final report.

This page was left out of original document

**ANTIFRICTION BEARINGS CONTRACTS WITHOUT
THE REQUIRED CERTIFICATION OF DOMESTIC ORIGIN**

<u>Administrative Contracting Office</u>	<u>Contract Number</u>	<u>Manufacturer</u>
Defense Contract Management Area Operations*:		
Hartford	DLA500-89-C-0799	The Torrington Company
Boston	DLA500-89-C-0666	New Hampshire Ball Bearings, Inc.
	DLA500-89-C-0731	New Hampshire Ball Bearings, Inc.
	F41608-89-C-3016	Split Ballbearing, Division of MPB Corp.
Atlanta	DLA500-89-C-3211	INA Bearings Co., Inc.
Grand Rapids	DAL500-89-C-1920	Kaydon Corporation
	DLA500-89-C-1911	Kaydon Corporation
Bridgeport	DLA500-89-C-0756	FAG Bearings Corporation
	DAL500-89-C-0758	FAG Bearings Corporation
Buffalo	DLA500-89-C-1916	SKF Aerospace Bearings
Ottawa	F41608-89-C-2473	FAG Bearings, Ltd.

* Formerly Defense Contract Administration Services Management Areas.

This page was left out of original document



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
U.S. ARMY CONTRACTING SUPPORT AGENCY
8109 LEESBURG PIKE
FALLS CHURCH, VIRGINIA 22041-3201



REPLY TO
ATTENTION OF

SFRD-KP

1 0 DEC 1990

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE,
(AUDITING), 400 ARMY NAVY DRIVE, ARLINGTON,
VA 22202-2884

SUBJECT: Draft Report on the Audit of Restrictive Contract
Clauses on Antifriction Bearings (9CA-5018)

1. Reference is made to memorandum dated 18 October 1990, which reports the results of your review of the use of clauses in solicitations and contracts for antifriction bearings. The report cites one Army contract which did not contain the required clause at DFARS 252.208-7000.
2. The Army concurs with the finding that the required clause was not included in a contract. In this instance, the solicitation had been issued before the U.S. Army Aviation Systems Command inserted the clause in its automated data base for use in solicitation preparation.
3. A telephonic inquiry by the U.S. Army Materiel Command of its contracting offices reveals that the above cited clause is included in solicitation automated data bases. No further action is necessary to remedy the deficiency identified in the draft report.
4. POC is Ray Kelly, 756-7563.

for J. Bruce King

NICHOLAS R. HURST
Brigadier General, GS
Director, U.S. Army Contracting
Support Agency

J. BRUCE KING
Acting Director
U.S. Army Contracting
Support Agency

CF:
SARD-DER (Ms. Willey)
SAIG-PA (Ms. Flanagan)

This page was left out of original document



THE ASSISTANT SECRETARY OF THE NAVY
(Research, Development and Acquisition)
WASHINGTON, D.C. 20350-1000

DEC 20 1990

MEMORANDUM FOR DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL
FOR AUDITING (DIRECTOR, CONTRACT MANAGEMENT)

Subj: DODIG DRAFT REPORT ON THE AUDIT OF RESTRICTIVE CONTRACT
CLAUSES ON ANTIFRICTION BEARINGS (PROJECT NO. 9CA-5018)

Ref: (a) DoDIG Memo of 18 October 90

Encl: (1) Navy Comments on Draft Report 9CA-5018

I am responding to the draft audit report forwarded by reference (a), concerning restrictive clauses on antifriction bearings in Navy contracts.

The Department of the Navy response is provided at enclosure (1). We concur with the finding that contracting officers did not always include restrictive clauses on antifriction bearings in contracts. We also concur with recommendation II(1) regarding the issuance of guidance to contracting offices to implement restrictive clauses and establish procedures to monitor the implementation of restrictive clauses in solicitations and contracts for the acquisition of antifriction bearings.

As outlined in the enclosed comments, the Department has taken, or is planning to take specific actions to ensure adequate management controls of similar procurements in the future.


Gerald A. Cann

Copy to:
NAVINSGEN
NAVCOMPT (NCB-53)

Department of the Navy Response
to
DoDIG Draft Audit 9CA-5018, Report of 18 October 90
on
Restrictive Contract Clauses on Antifriction Bearings

Findings - The DoDIG found that the Navy:

- o had generally implemented the restrictive clauses for miniature and instrument ball bearings but
- o had not implemented the restrictive clauses on antifriction bearings larger than 30 millimeters.

The IG claims that these internal control weaknesses resulted in contracts with no assurance that domestic manufacturers will provide the bearings.

Recommendation II(1) - The Naval Supply Systems Command:

- a. Issue guidance to their respective contracting offices to implement these requirements for restrictive clauses without separate notification and
- b. Direct their respective contracting offices to establish procedures to monitor the implementation of restrictive clauses in solicitations and contracts for the acquisition of antifriction bearings.

Navy Position: Concur. We concur with both the IG's finding and recommendation regarding the issuance of guidance by the Naval Supply Systems Command (NAVSUP). NAVSUP agrees this guidance to the field is necessary. A general policy letter will be issued to their respective contracting offices by 31 December 1990.

In addition, during Procurement Management Reviews, NAVSUP will review procurements to ensure activity compliance, quality, efficiency and effectiveness of the contract management process for both contracting and contract administration functions (NAPS 1.692-1(b)). If noncompliance areas are noted, the activity will be written up and reported. Upon a determination of an unsatisfactory condition in a procurement operation, timely corrective action implementation is tracked.

ENCLOSURE(1)



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

OFFICE OF THE ASSISTANT SECRETARY

DEC 14 1990

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of Restrictive Contract
Clauses on Antifriction Bearings (Project No. 9CA-5018) -
INFORMATION MEMORANDUM

This is in reply to your memorandum for Assistant Secretary of the Air Force (Financial Management and Comptroller) requesting comments on the findings and recommendations made in subject report.

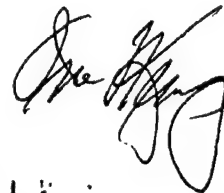
We are limiting our comments to Finding 1 and Recommendations 1.a and 1.b, as Recommendation 2 is not directed at the Air Force. Our comments are as follows:

Finding 1 - Concur. We agree that some of the Air Force Logistics Command (AFLC) contracts did not include restrictive clauses on antifriction bearings as required by the DOD Federal Acquisition Regulation Supplement. We also concur with the need for adequate monitoring of the implementation of the restrictive clauses.

Recommendation 1.a - Concur. HQ AFLC provides solicitation provisions and contract clauses to contracting offices through a fully automated, command-wide data base system. When a requirement, such as a restrictive clause, is added to or revised in the Federal Acquisition Regulation or its supplements, it is immediately changed within the data base. As a result, AFLC is able to implement the change before the formal supplement/change reaches the field contracting offices. Unfortunately, the implementation of the Required Source for Antifriction Bearings clause into the system was inadvertently delayed 90 days. If this error had not occurred, implementation would have been immediate.

Recommendation 1.b - Concur. HQ AFLC has issued (see attached letter) appropriate instructions to field contracting activities to ensure proper monitoring and implementation of restrictive clauses in solicitations and contracts for the acquisition of antifriction bearings.

We appreciate the opportunity to respond to the draft audit report. If additional information is needed, our point of contact for matters pertaining to this audit is Lt Col Fountain, SAF/AQCS, 695-1997.



IRA L. P.
Associate Assistant Secretary (Contracting)
Assistant Secretary (Acquisition)

1 Atch
HQ AFLC Ltr, Dec 12, 1990



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE LOGISTICS COMMAND
WRIGHT-PATTERSON AIR FORCE BASE, OHIO 45433-5001

REPLY TO
ATTN: BP

PM

12 DEC 1990

SUBJECT

Implementation of Restrictive Clauses in Solicitations and Contracts

TO

Distribution D/PM

1. A recent DOD/IG Audit Report highlighted weaknesses in the implementation of restrictive contract clauses for the acquisition of antifriction bearings. The audit report found our internal controls to be inadequate for ensuring the applicable clauses were appropriately included in either the solicitation or contract.
2. The antifriction bearings clauses have now been added to our data base. Therefore, these clauses will automatically be included in solicitations and/or contracts where appropriate.
3. Additionally, the report cited instances where the clauses were included in contracts, but contractors were not providing the required certifications. This was caused, in part, because neither the buying activities nor the contract administration offices were adequately monitoring the implementation of the restrictive clauses.
4. We have existing procedures for reviewing certifications on contractors. The antifriction bearings certifications has been added to our Representations and Certifications, (REPS and CERTS), data base. Therefore, when a contract is being issued, the antifriction bearings certification requirement will be called out in the REPS and CERTS data base.
5. Contracting offices must review this REPS and CERTS data base, at contract award, to ensure contractor certificates are in compliance with the antifriction bearing clauses.

FOR THE COMMANDER

Claude E. Messamore Jr.

CLAUDE E. MESSAMORE, JR., Colonel, USAF.
Asst DCS/Contracting

~~AFLO~~ COMBAT STRENGTH THROUGH LOGISTICS

This page was left out of original document

**SUMMARY OF POTENTIAL MONETARY AND OTHER
BENEFITS RESULTING FROM AUDIT**

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and Type of Benefit</u>
1.a.	Improve internal controls and eliminate delay of implementation of DFARS requirements for restrictive clauses by not issuing separate notification.	Nonmonetary.
1.b.	Improve internal control procedures by monitoring the implementation of restrictive clauses for antifriction bearings.	Nonmonetary.
2.a.	Improve internal controls and provide protection of industrial base by obtaining certificates of domestic origin.	Nonmonetary.
2.b.	Improve internal controls by enforcing the requirements for contractor certification for domestic manufacture.	Nonmonetary.

This page was left out of original document

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Under Secretary of Defense for Acquisition, Office
of Industrial Base Assessment, Falls Church, VA

Department of the Army

Army Materiel Command, Alexandria, VA
Army Aviation Systems Command, St. Louis, MO

Department of the Navy

Naval Supply Systems Command, Washington, DC
Aviation Supply Office, Philadelphia, PA

Department of the Air Force

Air Force Logistics Command, Wright-Patterson Air Force Base, OH
San Antonio Air Logistics Center, San Antonio, TX

Defense Logistics Agency

Headquarters, Alexandria, VA
Defense Industrial Supply Center, Philadelphia, PA
Defense Contract Management Area Operations (formerly Defense
Contract Administration Services Management Area) Offices:
Bridgeport, Stratford, CT
Atlanta, Marietta, GA
Boston, Boston, MA
Buffalo, Buffalo, NY
Philadelphia, Philadelphia, PA
Hartford, Hartford, CT
Ottawa, Ottawa, Ontario, Canada

Contractors

FAG Bearings Corporation, Stamford, CT
INA Bearing Company, Fort Mill, SC
SKF Aerospace Bearings, Jamestown, NY
New Hampshire Ball Bearings, Incorporated, Petersborough, NH

This page was left out of original document

AUDIT TEAM MEMBERS

David K. Steensma, Director, Contract Management Directorate
Richard B. Jolliffe, Program Director
Daniel Moy, Acting Project Manager
Noble C. White, Team Leader
Louis J. Max, Auditor

This page was left out of original document

FINAL REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Assistant Secretary of Defense (Production and Logistics)
Deputy Assistant Secretary of Defense (Procurement)
Director, Office of Industrial Base Assessment

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Auditor General, U.S. Army Audit Agency
Commander, Army Materiel Command
Commander, Army Aviation Systems Command

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Director, Naval Audit Service
Commander, Naval Supply Systems Command
Commander, Navy Aviation Supply Office

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management
and Comptroller)
Auditor General, Air Force Audit Agency
Commander, Air Force Logistics Command
Commander, San Antonio Air Logistics Center

Other Agencies

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Commander, Defense Contract Management Command
Commander, Defense Industrial Supply Center

FINAL REPORT DISTRIBUTION (Continued)

Non-DoD

Office of Management and Budget
U.S. General Accounting Office,
NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Forces
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

Honorable Nancy Johnson
House of Representatives

Honorable John Spratt
House of Representatives

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Restrictive Contract Clauses on Antifriction Bearings

B. DATE Report Downloaded From the Internet: 08/08/00

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 08/08/00

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.